

Success story #3 MaliFinance

Launching Mid Term Credit in Mali

A new, much needed and awaited product was developed by Mali Finance to satisfy the needs of not only many agro-entrepreneurs, but also those of Micro Finance institutions and agricultural equipment suppliers.

The zone where the Niger Office¹ is based has been known as the agricultural center in Mali. Many small agricultural producers live in this area under extreme poverty, and one of their problems is the lack of access to financial resources for the acquisition of adequate agricultural equipment.



Great irrigated agricultural potential

Even though the suppliers of agricultural equipment and machinery in this zone produce sufficient materials, they have difficulty in selling off their products as many agricultural producers do not dispose of enough financial resources to purchase equipment directly from suppliers.

A mid-term credit product intended for ‘light equipment’ (ploughs, harrows, oxen, etc.) was put in place in 1984 with the help of Project ARPON in collaboration with the village associations, and everyone was equipped with a thresher for harvesting rice. The majority of agricultural producers working with the Niger Office were equipped during that time. However, over the years many families expanded leading to fragmentation of land area and division of agricultural equipment. In addition, the land redistribution in the zone has also led to a reallocation of materials.

As a result, the number of small producers has increased, but they are left with smaller plots, fewer possibilities for expansion and a need for additional equipment. Most agricultural operations appear to be profitable, but the size of the operations and general family and household obligations often do not permit



¹ The Niger Office, or Office du Niger, has been the center for a well developed system of irrigated agricultural production for many years. The area is located, just north of Segou.

producers to reinvest in the much needed agricultural equipment.

The availability of basic agricultural equipment to micro and small agricultural entrepreneurs can have a major impact in their ability to increase production and household revenues.

The increased need for equipment has had a major impact in this zone and has resulted in a number of problematic issues:

- ◆ Individual credit has taken the place of credit for village associations;
- ◆ As a result, the village association were confronted with serious functionality difficulties;
- ◆ The agricultural credit has now limited itself to agricultural campaigns only.

The question of the availability of equipment for agricultural production has therefore become even more relevant. Mali Finance, as partner project under the USAID Accelerated Economic Growth strategic objective for the agricultural sector in Mali, has therefore taken the opportunity to work with the existing microfinance institutions in the Niger Office zone to develop a product that would provide a solution to this problem and respond to the needs of all stakeholders involved. A market study was conducted on the availability of agricultural equipment in the zone and a new product, mid-term credit, was conceptualized. In analyzing all factors, it was decided that the mid-term credit product to be offered to micro and small agricultural producers should be based on a lease credit principle. This type of credit will likely improve relationships and collaboration between financial institutions, equipment suppliers and agricultural producers.

The following steps were involved in the development of the mid-term credit product for the Niger Office:



A variety of agricultural materials could be sold and purchased with the availability of mid term credit

- ◆ Identification of five (5) equipment suppliers, being: CAFON, DRIGOR, AAMA, Moustapha Coulibaly and Mamadou Coulibaly. Purchase contracts were signed between these suppliers and Nyèsigiso, a local microfinance institution;
- ◆ Identification of the types of equipment for which the credit should be used, for example a plough, a thresher, draught oxen, donkeys, and a hand or push cart.
- ◆ Creation of the actual mid-term credit product, which will be granted to agro-entrepreneurs on the basis of a three year loan term at a 14% interest rate per year.
- ◆ Capacity strengthening of the three microfinance institutions operating in the Niger Office zone, being Nyesigiso, FCRMD, and CVECA of the Niger Office.

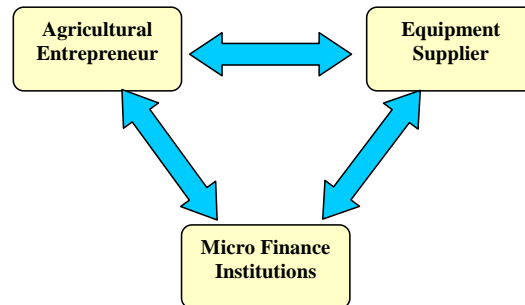
These institutions will be provided with training specifically geared to offering mid-term credit loans and focuses on analyzing mid-term credit and the reimbursement capacity of entrepreneurs according to the dimension of their operations and the length of the loans requested.

- ◆ Introduction and explication of this new product in the Niger Office zone through mass diffusion of radio messages in Bambara through the rural radio in Niono and

the publication and distribution of folders and posters explaining the use of mid-term credit loans.

The provision of mid-term credit will work as follows:

- I. The microfinance institution will purchase the equipment from the supplier after a procurement contract has been signed, which stipulates the conditions for execution.
- II. The microfinance institution hands the equipment over to the agricultural producer, who will not become proprietor until his/her mid-term credit loan has been fully reimbursed.
- III. The advantages of this system are that (1) the supplier can sell off his equipment quicker and more directly for hard cash; (2) the agricultural producer will have direct access to equipment which will allow him/her to increase production; and (3) the microfinance institutions give out more loans, and thus increase their clientele and improve their level of viability.



Based on the market study conducted in the zone, the expressed needs of the agricultural producers in the area added up the following figures - 5,000 oxen; 2,000 ploughs; 4,500 threshers; 2,500 hand or push carts; 100 small motorized ploughs; and 5 tractors, representing a total monetary value of roughly \$1,000,000 (500 million FCFA). The most commonly used agricultural equipment cost varies between \$1,000 and \$4,000 (500.000 FCFA to 2.000.000 FCFA) depending on the nature of the equipment and specific need for materials per agricultural entrepreneur.

Nyesigiso, the first microfinance institution to provide mid term credit in the zone, has established a line of credit with OIKO Credit (a Dutch organization) to support this new service. The official launch of the new product in May 2005, has enthused hundreds of agro-entrepreneurs who have expressed an interest in obtaining mid-term credit to improve their agricultural operations and increase their production and profits. Mali Finance will work with the other two microfinance institutions currently present in the zone to facilitate the introduction and availability of mid-term credit at these institutions as well. Currently, the main constraint for these two institutions is the lack of long term financial resources. Mali Finance will therefore provide technical assistance to strengthen their financial structure and organization to assure that the banks will provide them with a credit line for mid term credit in the near future. The combined benefits of launching mid term credit in Mali respond well to the overall strategic objective of USAID/Mali, which is to reduce poverty through increasing production and revenues for agro-entrepreneurs.

